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Notices

Mallard E-Mail Update
We strongly encourage all clients to read our E-Mail Updates (which are different from this quarterly newsletter). They may contain important information that is relevant to your situation. It is always best to call us if you think something may apply to you so that we can discuss it.

If you are not receiving our E-Mail Updates, let us know by sending us an e-mail requesting to be added to our list.

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MALLARD ADVISORS LLC

Comprehensive Financial Planning & Wealth Management Solutions

The Quarterly Mallard Call

Mitigating Fear in a Bear Market

William D. Starnes

While bear markets are scary enough, this one not only came swiftly, but was also compounded by the uncertainty and fear of watching a global pandemic roll across America. This is not only affecting everyone in some way, but may also be infecting some of our own family and friends. Worse, this is all unfolding as we look around at our communities, which appear as ghost towns as a result of social isolation.

All of this is leading to an unprecedented amount of stress and fear. It is scary. Feeling fear is not abnormal, nor is it a sign of weakness. It is hardwired into us as a protective device. However, remaining in a state of fear can be paralyzing, debilitating, can cloud thinking, and can also be a health risk. Also, through what is called "potentiation", ***fear is amplified*** *when you are already in a fearful state.* In other words, when scared, even harmless events can seem scary. For example, while watching a scary movie starring a creepy-crawly creature, I have enjoyed lightly touching one of my children's necks. What do they do – JUMP! All of a sudden, something very harmless feels quite harmful! In other words, our "spider senses" are always tingling as they anticipate and exaggerate all other fears.

So, in times like we are in now, where fear is working on many levels, we all need coping strategies to manage the fear not only for our own health, but for the benefit of our wealth. There are a variety of methods to manage fear and stress including meditation, outdoor walks, and prayer. However, I would like to focus on four others for this article.

Gratitude
It has been said that when Warren Buffett wants to calm himself, he looks at pictures of his family. What do you think he is *feeling* as he looks at those pictures as a method of calming himself? **Gratitude**. When filling yourself with gratitude, it is very hard to also be in a state of fear and anxiety. Try it. First, close your eyes and think of those people, experiences, or things you have that you are grateful for. Second, focus on the strong feelings of gratitude you have for your wife, husband, mother, father, son, daughter, job, co-worker, health, God, relationships, experiences, etc. Finally, let the memories and feelings flow and grow as you fill yourself with appreciation and gratitude. Note how these feelings push fear away.

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Announcements

While our physical office is closed to foot traffic, Christina and Bill continue to work within the office. Sherry, Rachel, and Kristen are all working from home. This could change at any time as circumstances and/or guidelines from our local government change. However, rest assured we are able to operate effectively from any location. This includes answering and managing the phones, accessing our software and systems, and reaching our service providers.

Limiting News Intake

As mentioned earlier, fear can become amplified when you are already in a heightened and fearful state. So, how does the news play into this? It is taking our already heightened state and magnifying it by burying us in more and more bad news. Media companies are businesses, and their job is to reach and retain as many sets of eyeballs as it can by creating a sense of fear and urgency.

Knowing this, I would simply attempt to limit the amount of news you consume and try to focus on the most objective sources of information (such as the CDC website in the case of the Coronavirus as opposed to say Twitter).

Focusing on the Controllable

Accepting the things that are out of our control, and focusing with courage on the things within our control makes us feel better. The Serenity Prayer, adopted by many 12-step programs, is proof that this works. What can we control at this time? We can control our portfolio including rebalancing, tax-loss harvesting, diversifying, and minimizing our costs. We can control our spending. We can control (to a large extent) the spread of the Coronavirus by following CDC guidelines. Humans are social creatures, so continue to connect with others (electronically) to talk about whatever it is you are going through. This alone helps to minimize fear.

We can’t control government policies, politics, markets, layoffs, or global pandemics.

Maintaining Faith in the Future

There have been, and will continue to be, great difficulties in the world and at times in our lives. We are most certainly living through these times now. There is always a real and painful crisis going on somewhere in our world (and even all over the world). It will be scary at times and it is normal to be afraid. If you don't believe that "this too shall pass," you have lost faith and will have great trouble successfully investing. I am talking about faith in the growth and progress of economies, businesses, and people (who work and own these businesses). This is faith in ***progress***, not ***perfection***. People, businesses, and politicians are not perfect, but if you take a step back to look at the upward curve of progress, it is easy to have faith. If you can't see this progress, and are fundamentally afraid of the future (and have lost faith), it is impossible to invest successfully.

No one can plan for the future without believing in that future. I believe that one of the keys to successful investing is to win the battle that takes place (in our mind) between our faith in the future, and our fear of the future. While we must live in a volatile world, we must act AS IF the future will be better. There will continue to be surprises and crises of horrific nature. When they occur, **we certainly won't know under what circumstances things will turn out, but we must know THAT things *are* going to turn out alright.**

What is the alternative? To gamble against capitalism? This does not mean living in denial, or just acting like starry-eyed dreamers. We should have faith in the future, because **the facts support that faith**, not because we have *blind* faith. Things will not always be rosy, and are still downright painful for many people, but long-term progress and improvement will continue through both the good times and the bad. This progress is what we are investing in, and the world will benefit from this progress over time.

Is there a reward for managing fear in order to avoid giving up on a long-term investment plan? Let’s put it this way. The average bear market drop (for large U.S. stocks) has been about 33%, and the average number of years it takes to see new market highs is about two years. Therefore, mathematically, a 23% annualized return (including dividends) would have to occur during those two years to return to that previous high. If this particular bear market takes four years, large U.S. stocks would still get a very good 13% annualized return. Following its March 2009 bottom – down 57% -- the S&P 500 compounded at more than 14% annually for almost 11 years!

Do deep bear markets sound like a time to sell or to buy? Naturally, stock markets could still go much lower, but regardless of where the bottom ultimately falls, future long-term returns will likely be quite good.

Fear is working on many levels right now, but managing fear is both good for our own health, and also for our wealth.

Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC

Tax Change Roundup

Over the last several weeks, a variety of tax related and other changes have been implemented as a response to the COVID-19 global pandemic. While I have detailed these in our E-Mail Updates, I would like to review some of the changes that are most relevant for our clients.

Required Minimum Distributions (RMDs) Are Waived in 2020

The most significant change for clients comes from the CARES Act (***Coronavirus Aid, Relief, and Economic Security***). Retirement account owners now have the *option* of taking OR not taking their 2020 RMDs. If desired, the RMDs can be skipped in 2020 in order to minimize the impact of retirement withdrawals occurring in the midst of a bear market (i.e. selling low). A similar provision was enacted in 2009 for the same reason. For 2020, this provision is broad and applies to IRAs, SEP IRAs, SIMPLE IRAs, 401(k)s, 403(b)s, and Governmental 457(b) plans. Furthermore, the relief applies to both retirement account owners, as well as to beneficiaries taking inherited IRA distributions.

For our clients who do not need to take their RMDs and would elect to skip them, this provides a once in a lifetime opportunity as a result of a potential drop into the 10% or 12% tax bracket. This is because this normally large chunk of taxable income would not exist in 2020.

Therefore, without the RMD income, clients may want to consider "creating income" by performing a partial Roth IRA conversion. Doing so could take advantage of these (never to be seen again) low tax brackets. We will be evaluating this strategy for all of our Wealth Management clients during our tax planning appointment. This requires multi-year tax bracket projections to ensure that these Roth conversions are done in brackets that are lower than the future brackets (when distributions occur).

In the meantime, there is the issue for those clients who already took (or started) their RMDs. Can they be returned to the IRA? If the RMD was taken from an IRA within the last 60 days, it can be returned (rolled-over) back to the account. However, only one month (i.e. one distribution) of rollover can occur.

Qualified Charitable Distributions (QCDs) Remain Valuable

If you don't have to take an RMD and you don't itemize deductions, a QCD is still the best way to give to charity—even though it does not reduce your RMD.

Tax Deadlines Extended

As I am sure you are aware, the Federal tax filing deadline has been extended to 7/15/20. Most states, including Pennsylvania and Delaware have extended their tax filing deadlines to 7/15 to be consistent with the Federal filing deadline. The deadline for making contributions to an IRA, Roth IRA, and Health Savings Account has also been extended to July 15.

While client tax returns have already been filed, keep in mind that your tax-due payments (if any) do not have to be mailed until 7/15.

Also, if you are making quarterly federal or state tax payments, the first quarter payment (normally due 4/15) is now due 7/15. However, the second quarterly payment is still due 6/15. Yes, the second quarter payment is due before the first!

Other Tax Law Changes

In late December the SECURE act was also passed which implemented three big changes for clients:

1. **Non-Spousal Inheritors of IRAs can no longer stretch their required distributions.** Previously, non-spouse beneficiaries could take distributions from IRAs and Roth IRAs over their life expectancy. However, now these beneficiaries (for account owners passing away in 2020 or later) will have to take out 100% of the IRA money within a 10 year time period.
2. **Deferral of the RMD Start Date.** Previously, RMDs had to begin in the year in which you turn age 70 & 1/2 (or deferred to 4/15 of the following year if desired). Now, RMDs must begin in the year in which you turn age 72 (or again deferred to 4/15 of the following year if desired).
3. **IRA Contributions Allowed Past age 70 & 1/2.** Beginning in 2020, individuals of any age will be allowed to contribute to a Traditional IRA assuming they have earned income.

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Market Commentary

You may not feel like being congratulated, but congratulations are in order. You have managed to live through the worst first quarter on record in the U.S. investment markets. To put it mildly, the decade is not starting off well. As you can see in the table of asset classes below, just about every investment saw declines in 2020's disastrous first quarter.

You also endured the fastest, longest, hardest roller coaster ride in market history, as measured by the volatility index. Basically, that means that one day the markets were down at record or near-record levels, and then as we thought perhaps the bear market would continue, we experienced near-record one-day gains.

The volatility exists because we are in a period of tremendous uncertainty. The pandemic has become the most significant public health crisis in a century, and as a result the economy has been placed into a medically induced coma. The government will provide life support while in the coma and there is an unknown recovery period once out of the coma. So, it remains that the shorter-term outcomes are not merely unknown, but unknowable.

Just like in 2007-2009, we have to believe in the resilience of capitalism to weather yet another storm, and in the value of persistence while many investors are making decisions out of panic. I have no idea which way the next 25% (for example) move will be, but I do know which way the next 100% move will be (hint: it won't be down), and we are positioned to ensure we don't miss it.

There are times when we all face challenges more important than the ups and downs of the markets, and this time certainly qualifies. Staying safe, staying well, and keeping our loved ones out of harm's way takes priority in this global pandemic.

Summary of Asset Class Total Returns *(as of 03/31/2020)*

Asset Class*	Ticker	One Month	Three Months	12 Months	*Annualized* 3 Year	5 Year	10 Year
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**							
60% Equity / 40% Bond	DGSIX	(10.5%)	(15.8%)	(8.2%)	0.8%	2.3%	5.2%
STOCKS							
Larger-Cap	VFINX	(12.4%)	(19.6%)	(7.1%)	(5.0%)	6.6%	10.4%
Smaller-Cap	NAESX	(21.9%)	(30.1%)	(23.4%)	(3.4%)	0.3%	7.7%
International - Developed Mkts	VGTSX	(16.1%)	(24.3%)	(16.6%)	(2.6%)	(0.7%)	2.0%
International - Emerging Mkts	VWO	(17.5%)	(24.6%)	(18.4%)	(2.8%)	(1.1%)	0.3%
Real Estate	VGSLX	(19.3%)	(24.1%)	(16.6%)	(1.5%)	0.5%	7.9%
Inflation Hedges	*	(9.7%)	(11.2%)	(13.6%)	(4.1%)	(2.7%)	1.3%
BONDS							
U.S. Investment Grade Bonds	VBMFX	(0.6%)	3.3%	9.0%	4.7%	3.2%	3.7%
Global Bonds	VTABX	(2.5%)	0.2%	4.8%	4.4%	3.4%	N/A

** Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for **"Natural Resources"** is used. All data is provided by Morningstar and includes reinvested dividends.*

** All returns are net of (i.e., after) fund fees, and include reinvested dividends.*

** Past performance is not indicative of future results.*

*** This portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond) - DGSIX*